

## Attachment B

052103 Draft

<Date1>

Marin Municipal Water District Board of Directors  
220 Nellen Ave  
Corte Madera, CA 94925

Subject: New Water Supply Agreement

Honorable Board of Directors:

As you know, the process for negotiating a new master water supply agreement with the Sonoma County Water Agency (Agency) has been initiated. The signers of the Eleventh Amended Agreement for Water Supply (Prime Contractors) represented by the Water Advisory Committee to the Agency (WAC) have invited Marin Municipal Water District (MMWD) to participate in this process with the understanding that MMWD may desire Prime Contractor status in the new agreement. MMWD accepted the WAC's invitation and has been involved in this process since its beginning stages.

Recently the Agency distributed an Agency Framework Issues List. Item No. 10 on the Agency's list provides that:

...the Agency would consider addition of MMWD to the new agreement at such time as the WAC unanimously recommends the inclusion of MMWD.

Negotiations and information collection have progressed to the point where the WAC believes it is important to get a specific expression of interest from MMWD regarding Prime Contractor status and information on where MMWD stands on the Agency's Framework Issues List.

### **Request for Letter of Continued Interest and Commitment:**

Specifically, the WAC requests the MMWD Board of Directors review the below list of conditions the WAC believes are necessary for MMWD to accept in principal in order for the WAC to consider it fruitful for MMWD to continue as a participating party in the negotiation process. The WAC requests MMWD write a letter to the chair of the WAC stating that MMWD Board of Directors sees none of the listed conditions as being "deal breakers", remains interested in participating as a party in the negotiation, and is committed to participate in negotiation of mutually acceptable detailed language to address the listed conditions in the new agreement. In order to keep the negotiation process on track, the WAC would appreciate receiving this letter of continued interest and commitment by <Date2>. Notwithstanding this request or MMWD's response, it

shall be understood that the listed conditions are not to be considered an offer to MMWD as the conditions have yet to be reviewed and approved by the existing Prime Contractors. Also, issues from individual parties will yet arise and all parties must approve the final negotiated agreement.

**Request for Information on MMWD's Position on Agency's Framework Issues:**

The WAC also requests that the MMWD Board of Directors carefully consider the Agency's Framework List and provide comments and information on MMWD's position on these items (please refer to Attachment C to the Revised Draft, Agency Water Policy Statement 2002 dated December 2002). The WAC requests that MMWD's response to this request for information also be provided by <Date2>. To assist MMWD to focus its efforts, the WAC asked the Agency to point out those items the Agency believes are more significant to MMWD and, where appropriate, to spell out in more detail how the Agency sees a given item affecting MMWD. The Agency's response is attached to this letter.

In preparing your comments, the WAC welcomes information on MMWD's suggestion that implementation of recycled water use be approached on a regional cost-effective basis to achieve the Agency's goal – particularly information on MMWD's view on how equitable transfer of funds from a non or partial implementing agency to an implementing agency(s) could best be accomplished.

Additionally, MMWD representatives have suggested that MMWD's Lagunitas Creek fisheries rehabilitation work would benefit the existing Prime Contractors if MMWD were to become a Prime Contractor. The WAC welcomes information MMWD can provide to enable the existing Prime Contractors to evaluate or quantify this potential benefit.

**List of Conditions:**

1. Depending on MMWD's decision with regard to firming up the last 5,000 acre-ft of water supply by making the lump sum payment (estimated to be approximately \$6,000,000) described in Section 8 of the existing Agreement for Sale of Water between the Agency and MMWD by no later than July 1, 2005 as provided for in that agreement, that MMWD's entitlement to deliveries from the Petaluma Aqueduct would be limited as follows:

MMWD makes Section 8 lump sum payment?	Yes	No
May 1 through September 30	12.8 mgd	8.3 mgd
October 1 through October 31	17.0 mgd	12.5 mgd
November 1 through November 30	20.0 mgd	14.0 mgd
December 1 through March 31	23.0 mgd	15.5 mgd
April 1 through April 30	20.0 mgd	14.0 mgd

Annual limit during any fiscal year:	14,300 acre-ft	9,300 acre-ft
Minimum annual take or pay amount*:	10,300 acre-ft	5,300 acre-ft

\* This requirement would replace the take or pay and ratcheting provisions in the current agreements between the Agency and MMWD. The charge for water not taken would be the same as for water delivered. Relief would be allowed in the event of an unscheduled aqueduct outage or if the Shortage of Water and Apportionment provisions (currently contained in Section 3.5 of the Eleventh Amended Agreement) are invoked. The WAC welcomes further discussion of alternative minimum annual take or pay limits and/or timing for same as discussed in meetings of March 14 and May 12, 2003 between MMWD and attending WAC members.

2. MMWD to pay its fair share of the Water Supply and Transmission System Project pursuant to the decision made in Condition 1 above (May 1 through September 30 delivery entitlement of 12.8 mgd or 8.3 mgd). Table 1 of the Agency Water Supply and Transmission System Project Economic and Financial Report - updated September 2001 provides the current best estimate of these costs and the year incurred for 12.8 mgd delivery entitlement. (Note: Regarding pipeline costs shown in the column entitled "Marin Municipal" and Common Facility costs, MMWD would be given the same "cash-out" option North Marin Water District has exercised in the past, namely to make lump sum payments in advance of project construction and finance these costs itself.)
3. MMWD to make a lump sum payment for revenues forgone due to substituting the new agreement for existing agreements. The current estimate of the present value of this lump sum payment is based on an analysis made by North Marin Water District staff and previously distributed to the WAC. If MMWD makes the lump sum payment noted in Condition 1 above, the amount of this revenue-forgone payment is estimated to be \$8,000,000. If MMWD does not make the lump sum payment noted in Condition 1, the amount of the revenue-forgone payment is estimated to be \$12,000,000. In either event, MMWD may opt to repay this revenue forgone obligation over time (including interest costs) as a special additional "per acre-ft" charge on water delivered from the aqueduct system. The WAC welcomes discussion/proposal of other alternatives as discussed in the meeting of March 14 and May 12, 2003 between MMWD and attending WAC members.
4. The unit rate (\$/acre-ft) that MMWD shall pay for all water delivered from the aqueduct system shall be the sum of the following (excludes charges identified in Conditions 2 and 3 above that may result from MMWD's choice with regard to Condition 1):
  - a. All charges constituting the total unit charge for service from the Petaluma Aqueduct\*\*

- b. Russian River Conservation Charge
- c. Russian River Projects Charge

\*\*MMWD may choose the same “cash out” option North Marin Water District has exercised in the past for Aqueduct and Common Facilities and avoid payment of associated revenue bond charges. Note that currently all aqueduct charges include an Operation and Maintenance (O&M) Charge which includes funding to help support existing Prime Contractor water conservation programs. Until a cumulative sum of \$15,000,000 has been collected and returned to the existing Prime Contractors for expenditure on water conservation programs, no portion of such funding will be provided to MMWD for water conservation programs it implements. Should the new agreement include a separate Water Conservation Charge, this same limitation shall apply (the first \$15,000,000 of water conservation funding is dedicated for existing Prime Contractors).

Thank you for considering this request. If you have any questions regarding the provisions outlined in this letter please feel free to call me at 707-543-3930.

Sincerely,

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Miles Ferris, Chair of the Water Advisory Committee to the SCWA

Attachment: Letter from Agency containing some of the more significant provisions that relate to MMWD contained in the Agency Framework Issues List.